

Message Text

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ACTION EA-14

INFO OCT-01 ADP-00 CIAE-00 DODE-00 PM-07 H-02 INR-10 L-03

NSAE-00 NSC-10 PA-03 RSC-01 PRS-01 SS-15 USIA-12

AID-20 COME-00 EB-11 FRB-02 TRSE-00 XMB-07 OPIC-12

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TAGS: ECON, TW

SUBJECT: ROC ADOPTS NEW MEASURES TO MEET INFLATIONARY PROBLEMS

SUMMARY: MINISTER ECONOMIC AFFAIRS Y. S. SUN ANNOUNCED JUNE 28 ELEVEN POINT STABILIZATION PROGRAM TO MEET INCREASING INFLATIONARY THREAT TO TAIWAN. PRICE CEILINGS ON SEVERAL MAJOR COMMODITIES INCLUDED, TOGETHER WITH LIFTING OF BAN ON IMPORTS OF MANY COMMODITIES AND MATERIALS FROM CERTAIN COUNTRIES (PRIMARILY JAPAN). WHILE NEW MEASURES MAY MODERATE TEMPORARILY PRICE RISES, CERTAIN FUNDAMENTAL PROBLEMS REMAIN: OVERHEATING ECONOMIC BOOM, RAPID EXPANSION OF MONEY SUPPLY AND PROBABLY UNDERVALUED EXCHANGE RATE.

1. ON JUNE 28 MINISTER ECONOMIC AFFAIRS Y. S. SUN ANNOUNCED AN ELEVEN POINT ECONOMIC STABILIZATION PLAN TO COMBAT PRESENTLY STRONG INFLATIONARY PRESSURES IN THE ROC' S ECONOMY (CONSUMER PRICES UP 6.1 PERCENT AND WHOLESALE PRICES 13.2 PERCENT IN FIRST FIVE MONTHS OF LIMITED OFFICIAL USE LIMITED OFFICIAL USE

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1973). MEASURES INCLUDE PRICE CEILINGS ON MANY FOOD, TEXTILE AND CONSTRUCTION ITEMS INCLUDING FLOUR, SOYBEAN OIL, PORK, CEMENT, AND YARNS AND FIBERS. IN ADDITION PUBLIC UTILITIES ARE REQUIRED NOT TO INCREASE THEIR

PRICES IN 1973. PREVIOUSLY PRESIDENT OF CHINA PETROLEUM CORP. HAD ANNOUNCED DESPITE HIGHER COSTS GASOLINE PRICES WOULD NOT BE RAISED IN " THE FORESEEABLE FUTURE" BUT DID NOT RULE OUT INCREASED FUEL PRICES FOR FOREIGN COMMERCIAL SHIPS AND PLANES.

2. OTHER NEW MEASURES INCLUDE PROHIBITION OF CONSTRUCTION NEW BUILDINGS OVER FOUR STORIES TO PRESERVE CONSTRUCTION MATERIALS; LIFTING OF RESTRICTIONS ON SOURCES OF IMPORTS FOR RAW MATERIALS AND BULK COMMODITIES AS PLASTICS, RUBBER, FOODSTUFFS, ETC; AND POSTPONEMENT ANNOUNCEMENT NEW LAND VALUATIONS FOR TAX ASSESSMENT PURPOSES.

3. MANY MEASURES INCLUDED IN MINISTER SUN' S ANNOUNCEMENT ALREADY IN EFFECT. THESE INCLUDE GOVERNMENT SUBSIDIZATION OF LOCAL PRICES FOR FERTILIZERS, SOYBEAN PRODUCTS AND FLOUR; ENCOURAGEMENT INCREASED PRODUCTION AGRICULTURAL AND MEAT PRODUCTS; PROHIBITION EXPORT CERTAIN ITEMS IN SHORT SUPPLY (PRESENTLY INCLUDES LUMBER, CEMENT, PAPER PULP, IRON AND STEEL MATERIALS, COTTON YARN, AND SOME MAN MADE FIBERS AND YARN;) AND CREDIT TIGHTENING MEASURES ANNOUNCED MARCH 31 (NOW CHIEFLY PROHIBITION IMPORTS OF SHORT TERM CAPITAL AND NO ROLL OVER PREVIOUSLY CONTRACTED FOREIGN SHORT TERM LOANS). NO ADDITIONAL BUDGETARY INCREASE IS TO BE PERMITTED FOR FY 1974 AND COMMODITY PRICE COMMISSION OF MOEA WILL BE STRENGTHENED.

4. COMMENT: MEASURES CONTINUE STOP GAP PROGRAM ADOPTED BY GOVERNMENT SINCE EARLY JANUARY TO MEET INFLATIONARY THREAT AS RESULT OF BOOMING ECONOMY AND WORLD WIDE COMMODITY PRICE JUMPS. WHILE STEEP WHOLESALE PRICE INCREASES WHICH BEGAN IN LATE 1972 HAVE MODERATED SINCE MARCH, CONSUMER PRICES CONTINUE THEIR PROGRESS INEXORABLY UPOWARD, RISING 1.25 PERCENT IN MAY ALONE OR A 15 PERCENT ANNUAL RATE. MORE NARROWLY BASED TAIPEI CONSUMER PRICE INDEX SHOWS 7.5 PERCENT INCREASE BY MID JUNE SINCE DECEMBER 1972.

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5. IN ADDITION TO BOOM WHICH IS CAUSING MATERIAL SHORTAGES IN MANY SECTORS OF ECONOMY AND INCREASED IMPORT COSTS OF COMMODITIES AND RAW MATERIALS (IMPORT PRICE INDEX UP 19.2 PERCENT SINCE DEC), CONTINUED RAPID MONETARY EXPANSION ALSO EXERTING PRESSURE ON PRICES. MONEY SUPPLY UP 48 PERCENT IN FIRST FIVER MONTHS 1973. IN CONTRAST TO PAST YEAR WHEN LARGE INFLOWS FOREIGN ASSETS PRIMARILY CONTRIBUTED TO MONETARY INCREASE, 1973 HAS WITNESSED HUGE EXPANSION DOMESTIC CREDIT ON TOP CONTINUED BALANCE OF PAYMENT SURPLUSES. MORE STRINGENT CREDIT RESTRICTIONS MAY BE NECESSARY EVEN AT COST OF SLOWING DOWN ECONOMY.

MOREOVER, 1973 YEAR OF LARGE WAGE INCREASES ESPECIALLY FOR PRODUCTION WORKERS AS A RESULT OF DEMAND FACTORS. TWENTY PERCENT RISE IS MINIMUM WITH 30/40 PERCENT INCREASES NOT UNCOMMON IN CERTAIN INDUSTRIES AS ELECTRONICS.

6. PRIVATE ECONOMISTS BELIEVE NT DOLLAR REMAINS UNDERVALUED AND CONTRIBUTING TO INFLATION AS A RESULT OF HIGH EXPORT GROWTH SURPASSING GROWTH IN DOMESTIC PRODUCTIVE CAPACITY. DESPITE OFFICIAL DISCLAIMERS, IT NOW APPEARS IF EXPECTED IMPORT SURGE INSECOND HALF 1973 NOT FORTHCOMING, REVALUATION NT DOLLAR HIGHLY PROBABLE.

7. IN CONCLUSION, EMBASSY BELIEVES NEW MEASURES MAY TEMPORARILY RESTRAIN PRICE INCREASES BUT FALL SHORT OF MEETING FUNDAMENTAL PROBLEMS. NT DOLLAR REVALUATION AND MEANINGFUL REDUCTION HIGH TARIFF STRUCTURE COULD MODERATE PRICE PUSH IMPORTED ITMES WHILE STRONGER EFFORTS MUST BE UNDERTAKEN TO STOP STEEP GROWTH IN MONEY SUPPLY. THE LATTER, HOWEVER, MAY BE DIFFICULT DUE TO LIMITED POLICY INSTRUMENTS AVAILABLE CENTRAL BANK AND EXCESS RESERVES AVAILABLE BANKING INSTITUTIONS.
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